

Arizona Department of Financial Institutions



First Edition!

Summer 2006 Newsletter

www.azdfi.gov

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Mission Statement

Our mission is to regulate and supervise the financial institutions and enterprises of Arizona according to statutes in ways that will not unreasonably impede economic growth or business activity and provide consumer support to the greatest possible extent.

Eric M. Boldan
Publications Editor

Welcome to DFI's inaugural newsletter! I trust you will find the information helpful and useful. Our newsletter is another way of informing you about new and recurring regulatory issues facing your industry. Staying connected with you allows DFI to better serve our twofold constituency: the companies we regulate and the people who do business with them.

As you know, Mr. Richard C. Houseworth retired from DFI early this year leaving me with some very big shoes to fill. Fortunately, the transition has been seamless. I am grateful to be able to lead the Department and to work with you in the upcoming years.

It has been a very busy and productive year for all of us here at DFI. As Arizona grows and expands, so does the amount of business we oversee. The explosive growth in the number of licensees in the real estate related industries was evidenced by a record 102 applicants sitting for the mortgage broker test in May. Additionally, two new state-chartered community banks opened for business: Asian Bank in Phoenix and Gold Canyon Bank in Gold Canyon.

I am very fortunate to work with a committed, dedicated, and hardworking staff. Several divisions make it all work: licensing, consumer affairs, banks, credit unions, financial enterprises, and regulatory enforcement. Since January of 2006, we have reached out to our licensees through educational seminars and presentations both on and off site. Your respective industries are thirsty for knowledge and open to what DFI has to offer you by means of our guidance and direction.

On April 7, I participated in the "Banking on the Border Conference" which was presented by the FDIC and the Arizona Bankers Association. The border states' bankers associations co-sponsored. This conference brought together law enforcement agencies and bankers for an information exchange on the unique challenges in combating fraud and money laundering in border states. I want to thank the FDIC and the Arizona Bankers Association for all of their hard work. Many participants suggested we make this an annual event.

On April 12, DFI hosted a morning presentation to the leadership of the Arizona Mortgage Lenders Association ("AMLA"). We provided detailed information about licensing and examining functions. The presentation was so well received that AMLA sponsored a second seminar that was held on May 24. Also in May, I spoke on three additional occasions to: the Mortgage Bankers Association, the Arizona Association of Mortgage Brokers ("AAMB") Southern Chapter, and at AAMB's annual conference as a panelist.

I truly enjoy meeting all of you and it is clear that you are good corporate citizens who want to be compliant, address weakness areas, and maintain excellent consumer service.

Enjoy the news and have a great and prosperous summer!

Learn more about Superintendent Rotellini by visiting www.azdfi.gov and click on "Superintendent."



Felecia A. Rotellini,
Superintendent



Licensing News

Richard Fergus, Division Manager,
Licensing and Consumer Affairs

Escrow Rates

Because of the voluminous information, DFI does not have the ability to get all of the information from the escrow binders onto our web site.

Nominations Due July 20, 2006

DFI is accepting nominees for members of the Mortgage Broker Testing Committee. The Committee has five members, of which four must be appointed by the Superintendent from nominations submitted by licensees. Members of the Committee serve a two year uncompensated term of office. Any licensee may submit a maximum of five nominations.

DFI formed a working group to begin the task of modernizing the Mortgage Broker Examination. This group is also drafting a modern revision of the Mortgage Broker Handbook. When the newly constituted Committee convenes in early August of 2006, it will take over the work begun by the working group to produce final versions of the revised Mortgage Broker Examination and the Handbook.

The legal details of the Testing Committee and Handbook can be found in A.R.S. § 6-908, and in administrative rule R20-4-920. Both of these authorities can be reviewed at www.azdfi.gov.

An area that is of great concern to DFI is the activities of the responsible individual ("RI") and the active manager ("AM") involved with mortgage brokers, mortgage bankers, commercial mortgage bankers, and collection agencies. The laws pertaining to these licensees require that they have and maintain an individual who is knowledgeable about the licensee's Arizona activities and who supervises compliance with the laws enforced by this Department and all other applicable laws and rules.

Arizona statutes require all mortgage brokers, mortgage bankers, commercial mortgage bankers, and collection agencies to notify DFI within ten days of learning that their RI will cease to be in active management. Furthermore, the licensee shall have 90 days in which to replace its RI with a qualified replacement and notify the Department.

Failure to notify the Department with a qualified replacement within 90 days will result in the expiration of your license.

Please refer to Arizona Revised Statutes Title 6, Chapter 9 and the Arizona Administrative Code Title 20 for RI qualifications.

It is the licensee's responsibility to ensure that the Department is notified of the RI and his/her qualifications within the 90 day period, which includes time to review the qualifications to ensure compliance with the applicable laws and rules. If a licensee notifies the Department on the 90th day, but the replacement RI does not meet the requirements to be qualified, then the licensee's license shall expire. DFI will forward all complaints to RIs and AMs to inform them about all Arizona activities. It is also the licensee's responsibility to inform the RI or AM of its responses to DFI.

Lastly, failure to maintain a RI or AM who is in active management may subject the licensee to DFI administrative enforcement action. Administrative actions may include a civil money penalty of up to \$5,000.00 per day per violation and license revocation.

Please review the applicable statutes and rules on our website:
www.azdfi.gov.

Applicable statutes and rules relating to **responsible individuals** and **active managers** are: A.R.S. § 6-903(F); A.R.S. § 6-943(G); A.R.S. § 6-976(B); A.R.S. § 32-1023(C); A.A.C. R20-4-107; and A.A.C. R20-4-102.

Credit Union News

Sue Meyer, Manager,
Credit Union Division



Due to significant changes by the IRS, DFI will no longer file the Group Return for Credit Unions (Form 990 "Return of Organization Exempt from Income Tax"). As an accommodation to the state-chartered credit unions in Arizona, particularly smaller credit unions, DFI oversaw the preparation of these returns. The return's growing complexity, liability, and costs led to the decision. Most other states have adopted the same stance.

Banking News

Tom Wood, Manager,
Banking Division

Along with most other states, DFI is a member of the Conference of State Bank Supervisors (CSBS), which is a national organization dedicated to protecting and advancing the nation's dual (state and federal) banking system. Through CSBS, state bank regulatory agencies and state-chartered banks strive to offer competitive chartering options, efficient and effective supervision, and a lower cost of regulation.

Every five years, DFI undergoes a rigorous review by CSBS of its examination, regulation, and supervision process. On May 15, 2006, CSBS notified DFI that it passed the review and will be accredited again as it was in both 1996 and 2001.

Accreditation enhances DFI's credibility with the banking community, other state and federal regulators, and the state legislative and executive branches.

Financial Enterprises News

Robert Charlton, Assistant
Superintendent, *Financial Enterprises*

Repeat exam violations are serious and can, and usually do, result in administrative enforcement action in the form of a notice of assessment with a civil money penalty, a cease and desist order with a civil money penalty, or a notice of hearing and complaint.

Some specific mortgage broker and banker violations we see are: improper assignment of the license ("net branching"); failing to obtain prior approval for change of ownership/control; failing to display a license properly; failing to notify the Superintendent of branch address changes; failing to conduct proper employee investigations; paying compensation to unlicensed contractors; failing to maintain correct and complete records; failing to comply with proper disclosure requirements; failing to ensure that the responsible individual maintains a position of active management; and failing to ensure that the responsible individual is knowledgeable about Arizona activities.

Please find, read, and review all applicable statutes and rules online at www.azdfi.gov.

IMPORTANT NOTICE: Pursuant to A.R.S. § 6-161(E), a financial institution or enterprise may not employ the person against whom a final removal, suspension, or prohibition order has been issued without the Superintendent's prior written approval. Final orders are posted on DFI's website located at www.azdfi.gov.

DFI Outreach

DFI is staying "connected" by presenting and informing licensees about: examination procedures, mortgage lending issues, regulatory enforcement actions, licensing, and consumer affairs complaints, to name a few.

Visit www.azdfi.gov and click on "DFI Outreach" for more information.

**2005 State Employee's
Charitable Campaign (SECC)
Contributions Top \$1.79
Million Dollars**

Kevin McCullough, DFI's Assistant Superintendent of Administration and 2005 SECC campaign coordinator, was part of a new record setting year for charitable giving by state employees. There are about 600 charitable agencies that participate in the campaign.

WWW.AZDFI.GOV
Resources at your Fingertips

Our website provides a wealth of information. Please use it to locate applicable statutes, rules, licensed entities, regulatory alerts, final administrative orders, and much, much more.

DFI Visits Countrywide's Chandler Facility

On May 12, 2006, in response to Countrywide's invitation, Superintendent Rotellini, Bruce Tunell, Deputy Superintendent, and Richard Fergus, Licensing & Consumer Affairs Division Manager, toured Countrywide Home Loan's Chandler, Arizona campus.

There are approximately 3,100 employees at the Chandler facility and it is expected to grow by an additional 6,000 employees by 2009.

Several company officials met with DFI and two Arizona House of Representative members (Bob Robson and John McComish), who represent the district encompassing the campus. Countrywide officials included Jeff Gray, Executive Vice President, Robert Power, Senior Vice President and Mike Matthews, Senior Vice President. Ditas Katague, Senior Vice President of State & Local Government Affairs for Countrywide, arranged the meeting.



Left to Right: Evan Harris, Mike Matthews, Bill Yontz, Bruce Tunell, Felecia Rotellini, Richard Fergus, Rep. John McComish, Robert Power, Chris Mozilo, Rep. Bob Robson, Jeff Gray, Ditas Katague, Michael Kamenca.

The event was one of several outreach efforts DFI has conducted this year. DFI licenses, regulates, and examines 17 entities and 4,200 licensees. Half of those are mortgage bankers/brokers and escrow agents engaged in the real estate industry.

